Driving Momentum

2017 Interim Results

1 August 2017

Direct Line Group

Today's agenda

1. 1H 2017 Overview
2. Financial highlights
3. Strategic update
4. Concluding remarks
5. Appendix

1. 1H 2017 Overview

Paul Geddes

Strong momentum in 1H 2017

- ✓ Excellent first half operating profit of £354m
- ✓ Premium growth +5%, driven by Direct Line momentum
- ✓ Combined ratio of 88.9% vs. 89.6% 1H 2016
- ✓ Increased regular dividend by 39% to 6.8 pence reflecting strong earnings base
- ✓ Maintained strong capital; 173% Solvency II ratio[1]

Making insurance much easier and better value for our customers

1. Post the interim dividend

Refreshed medium term targets

Momentum + Opportunity → Medium term targets

- ✓ Growth momentum across own brands
- ✓ Continued efficiency improvements
- ✓ Strong underwriting performance
- ✓ Strong balance sheet

Strong pipeline of initiatives

1. **Costs:** Reduce expense and commission ratios
2. **Combined ratio:** 93%-95%
3. **Rebased dividend:** grow in line with business growth
4. **Capital:** target the middle of the 140%-180% Solvency II target range[1]

Long-term target: at least 15% ROTE

1. In normal circumstances, and in the absence of any material threat or opportunity

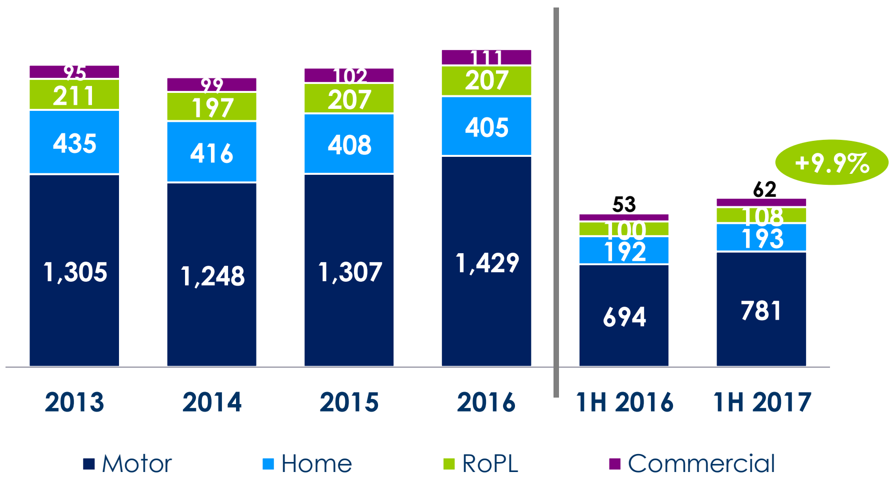
Direct Line Group

2. Financial Highlights

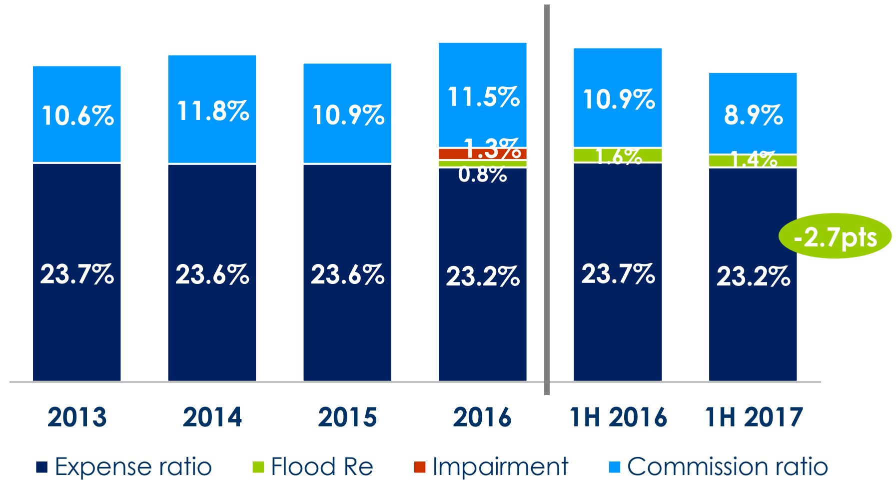
John Reizenstein

Strong results; growing and achieving our targets

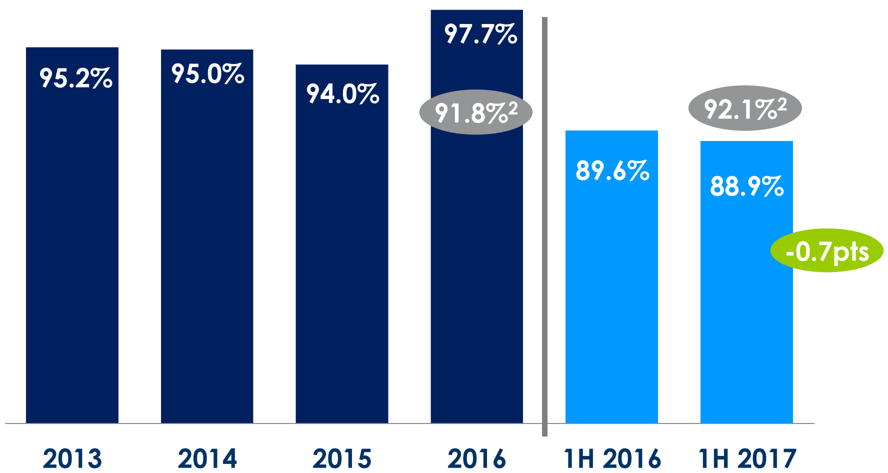
Own brand premiums[1]



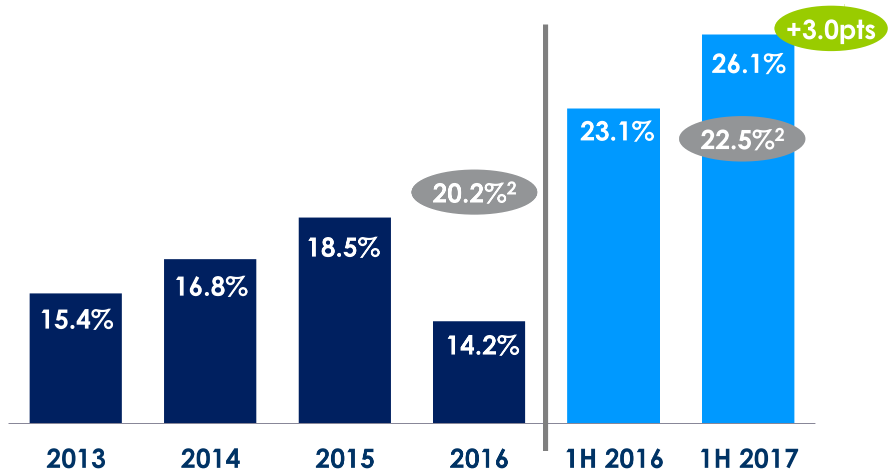
Expense and commission ratios[1]



Combined operating ratio (COR)[1]

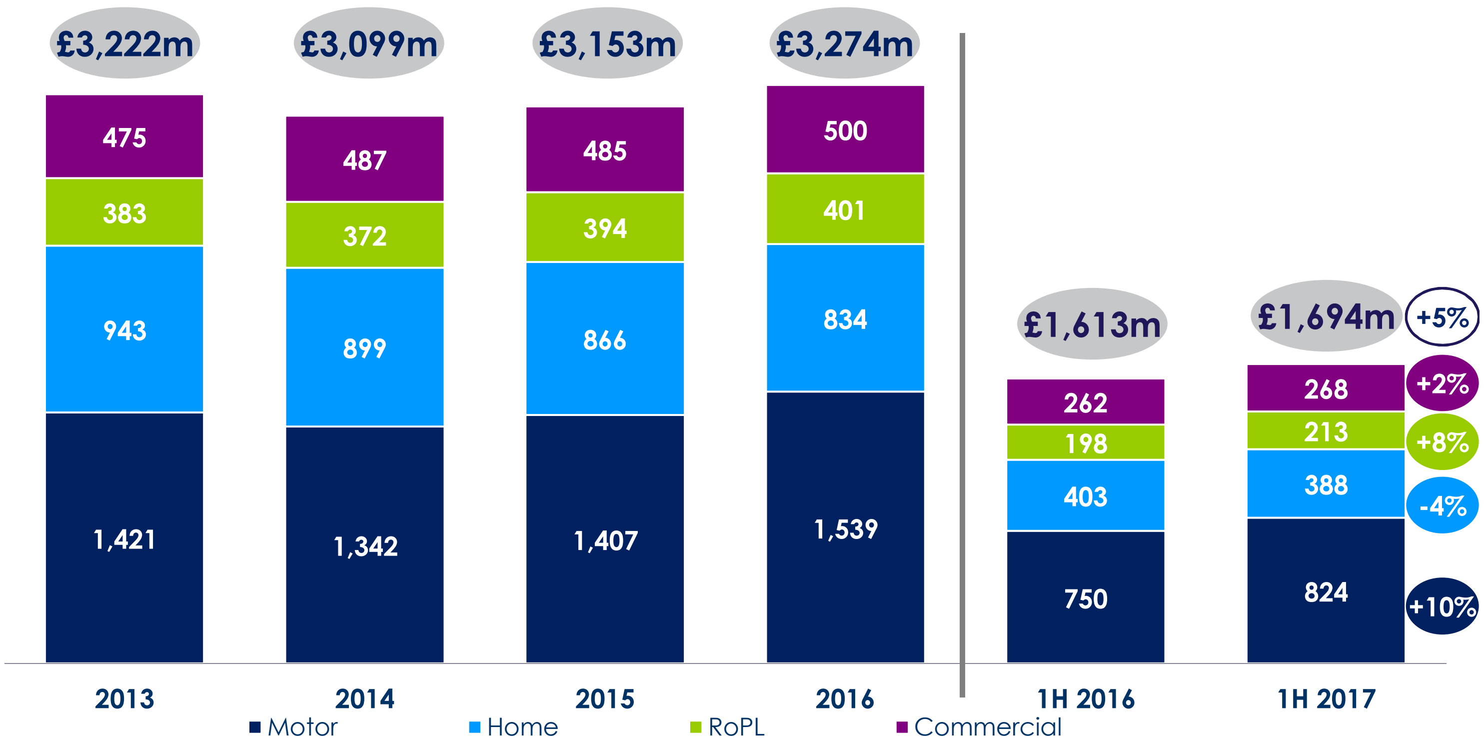


Return on tangible equity (ROTE)[1]



1. See glossary on slides 45-46 for definitions. International has been excluded
2. 2016 FY and 2017 H1 adjusted to remove impact of Ogden discount rate

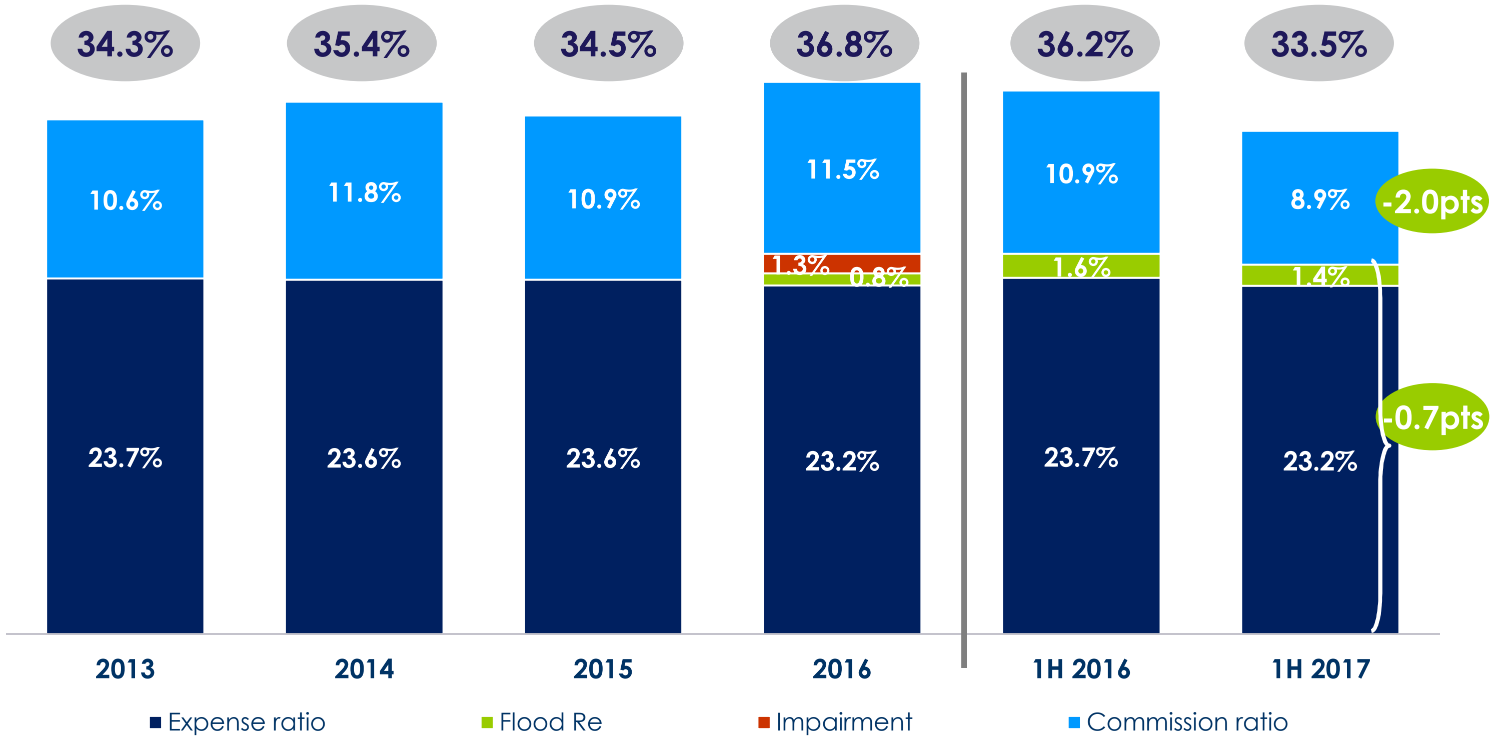
Group: Premium momentum



- 5% premium growth in 1H 2017
- Direct Line brand driving growth across Personal and Commercial lines
- Green Flag driving Rescue premiums
- Home partnership volumes reducing as expected

1. International has been excluded

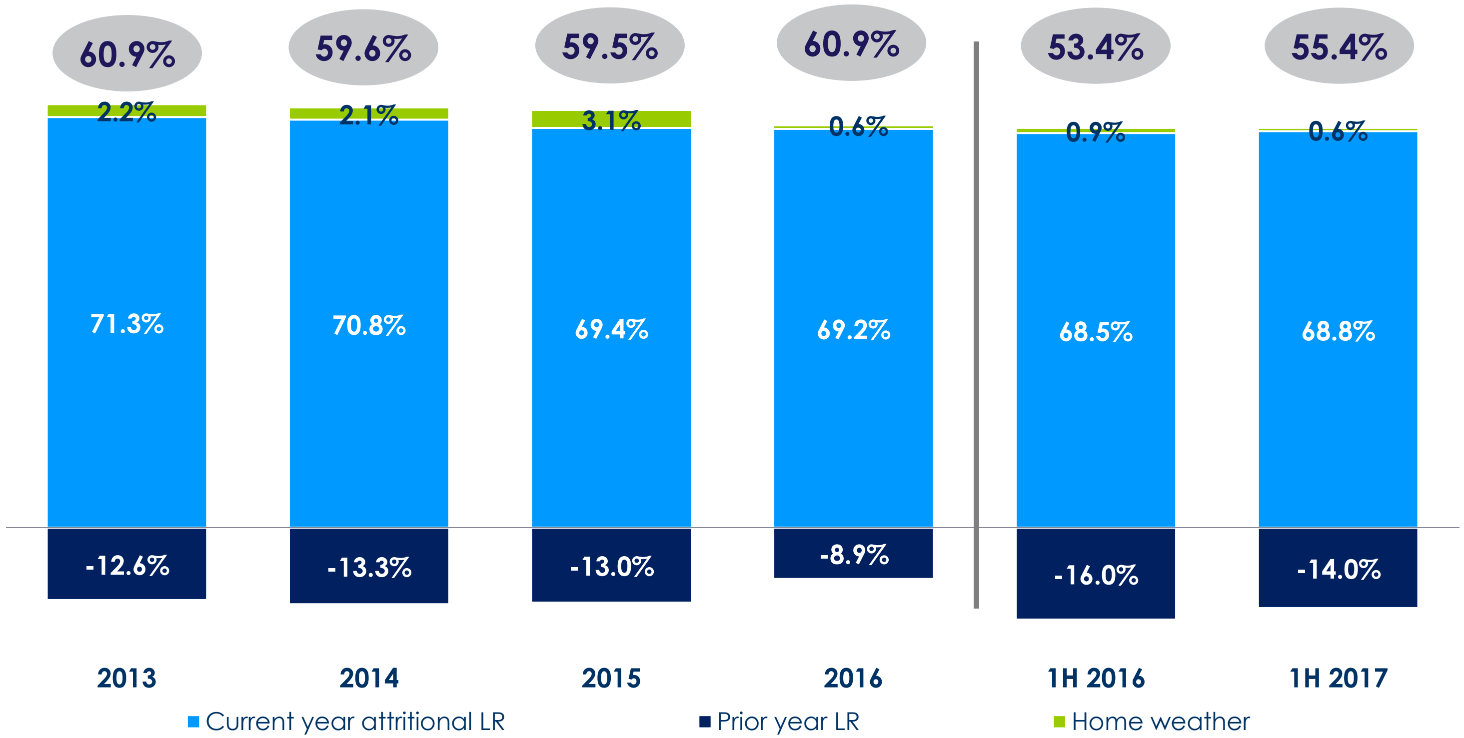
Group: Cost discipline opened operating jaws[1]



- Expense and commission ratios[1] both lower than prior year
- Premium growth and sustained cost discipline providing operating leverage
- Lower commission ratio reflects mix towards direct and lower payments to Home partners
- On target to reduce cost and commission ratios

1. See glossary on slides 45-46 for definitions. International has been excluded

Group: Steady attritional loss ratio[1]

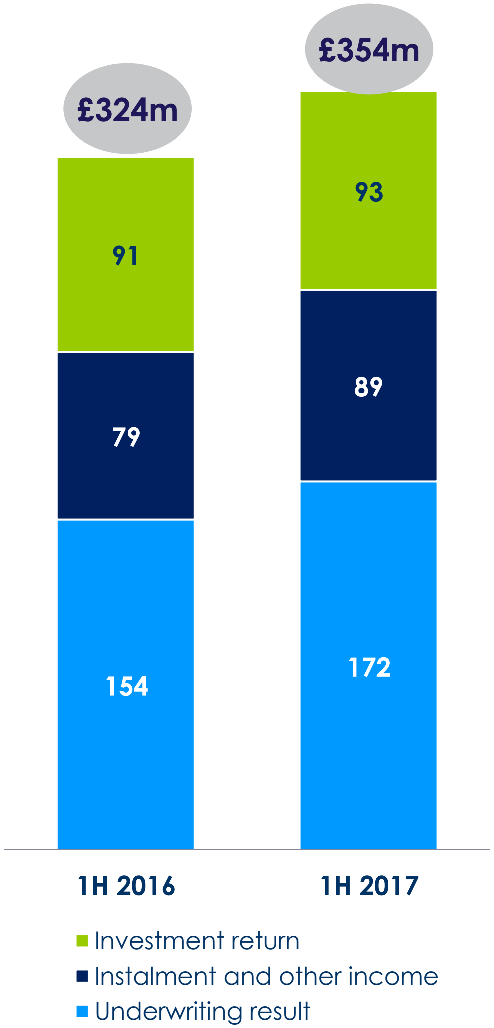


- **Current year attritional loss ratio broadly stable as strong Motor result offset higher Home loss ratio**
- **1H 2017 prior year reserve releases include a £50m Ogden release. 1H 2016 benefitted from large weather releases**
- **Benign weather in 1H 2017 and 1H 2016**

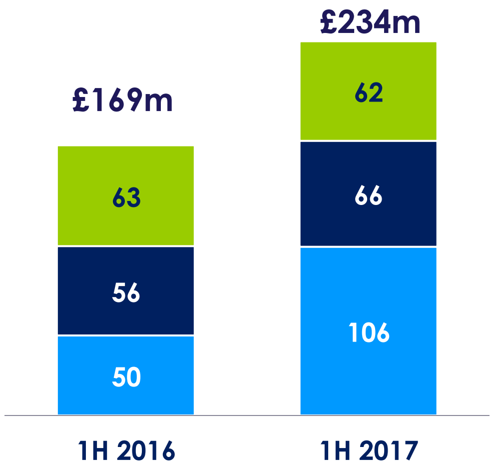
1. See glossary on slides 48-49 for definitions. International has been excluded

Operating profit: Strong Motor result

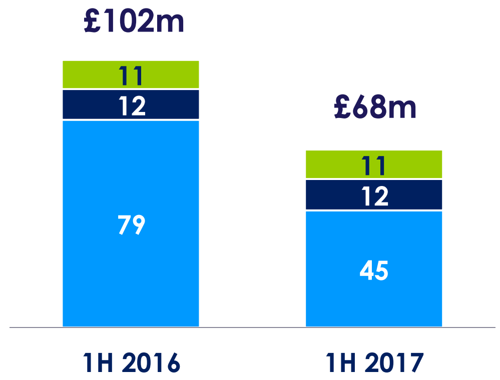
Ongoing operations[1]



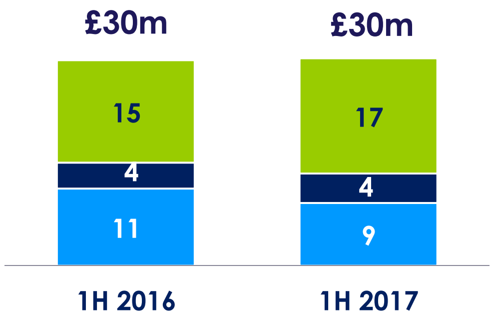
Motor



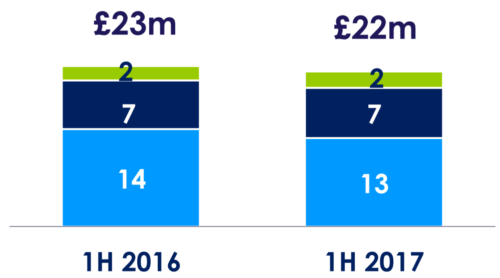
Home



Commercial



RoPL

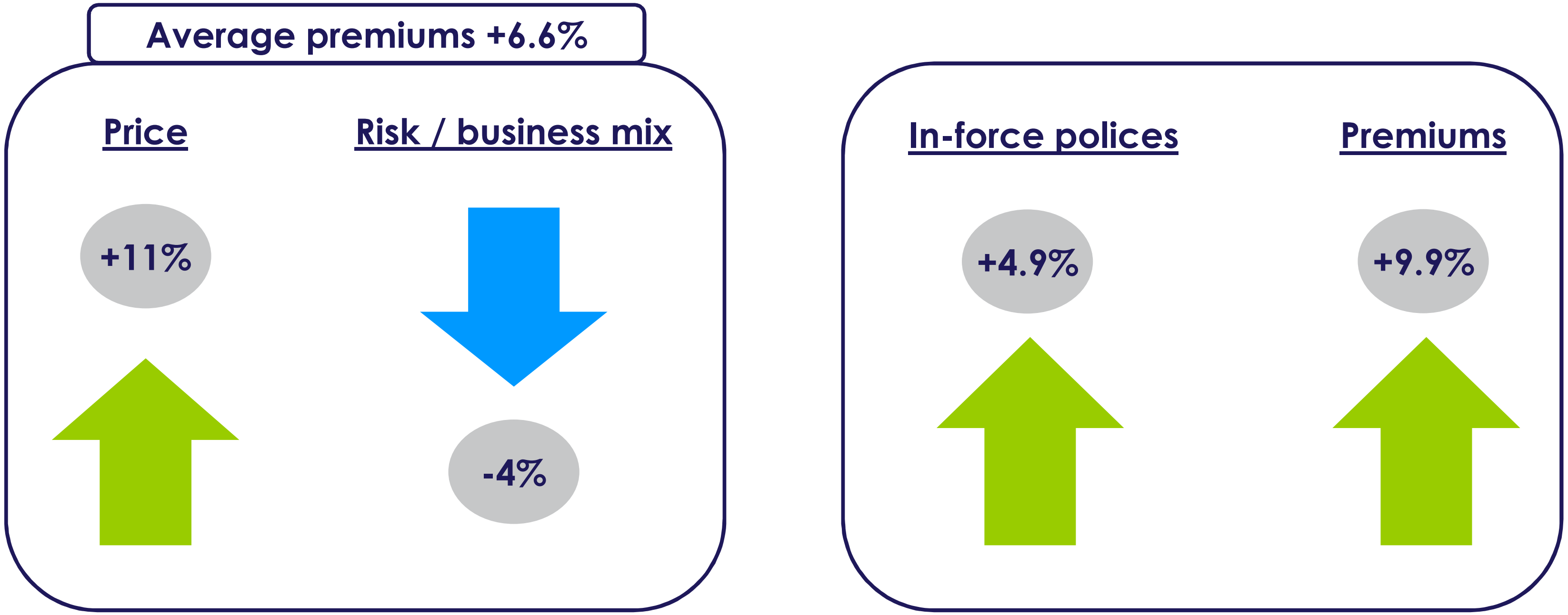


1. See glossary on slides 45-46 for definitions

Motor: growth and discipline

- Fully priced for change to Ogden discount rate (gross of reinsurance)
- Pricing for claims inflation; around the top of the range
- Risk mix reduced due to Ogden price changes
- Retention remained strong

Total Motor 1H 2017[1]

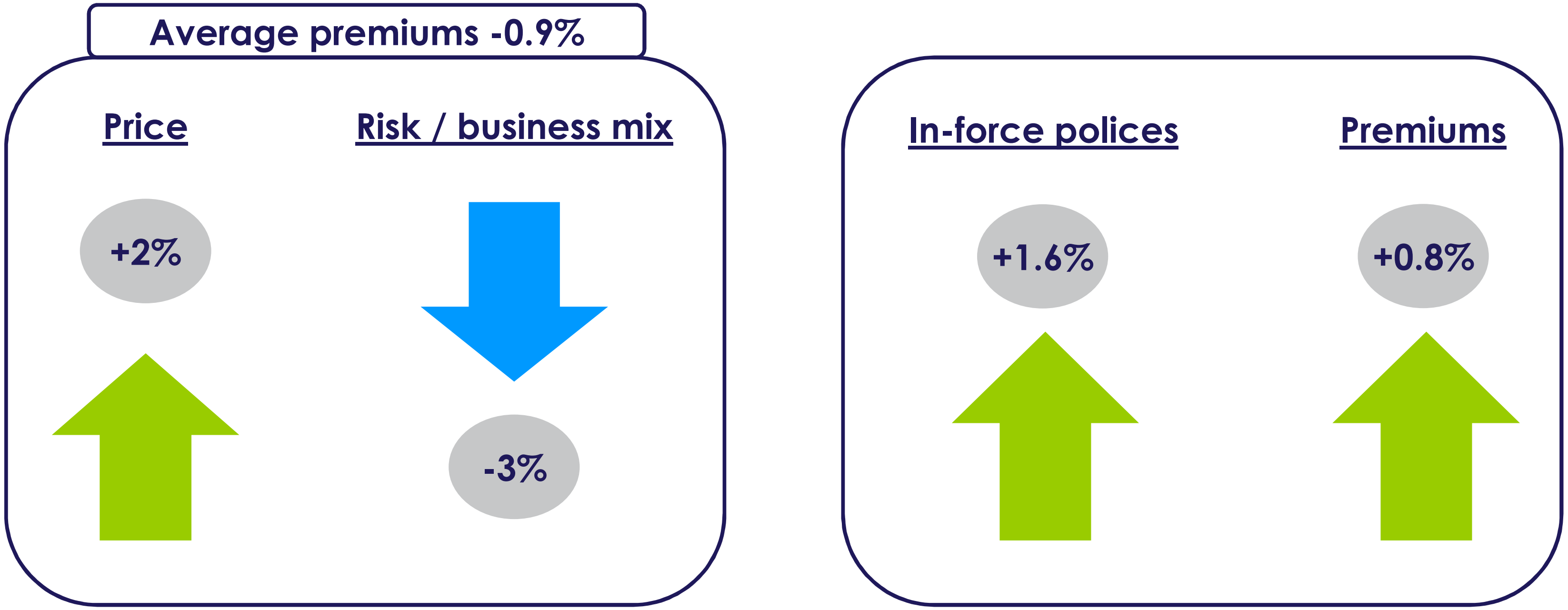


1. Excludes IPT

Home: actions taken across pricing, underwriting and claims

- Escape of Water (EoW) inflation; pricing, underwriting and claims management actions
- Pricing actions reduced new business growth in 1H 2017
- Renewal pricing strategies helped maintain strong retention rates and grow own brand policy count

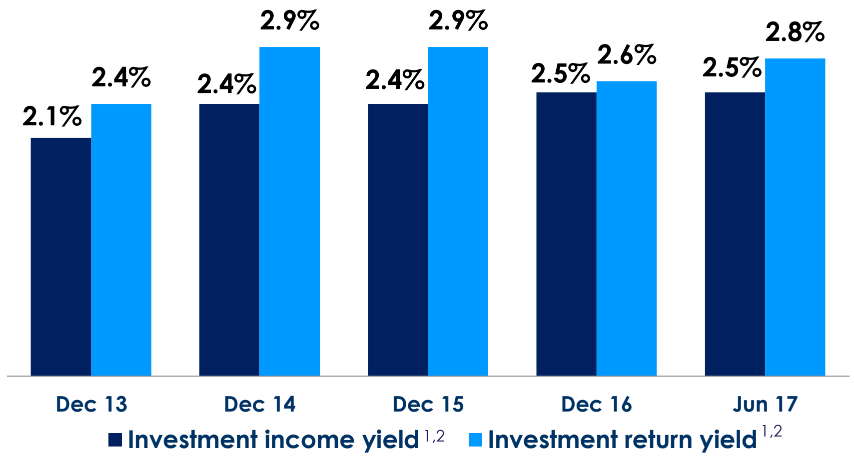
Home Own brands 1H 2017



1. Excludes IPT

Investments: performing as planned

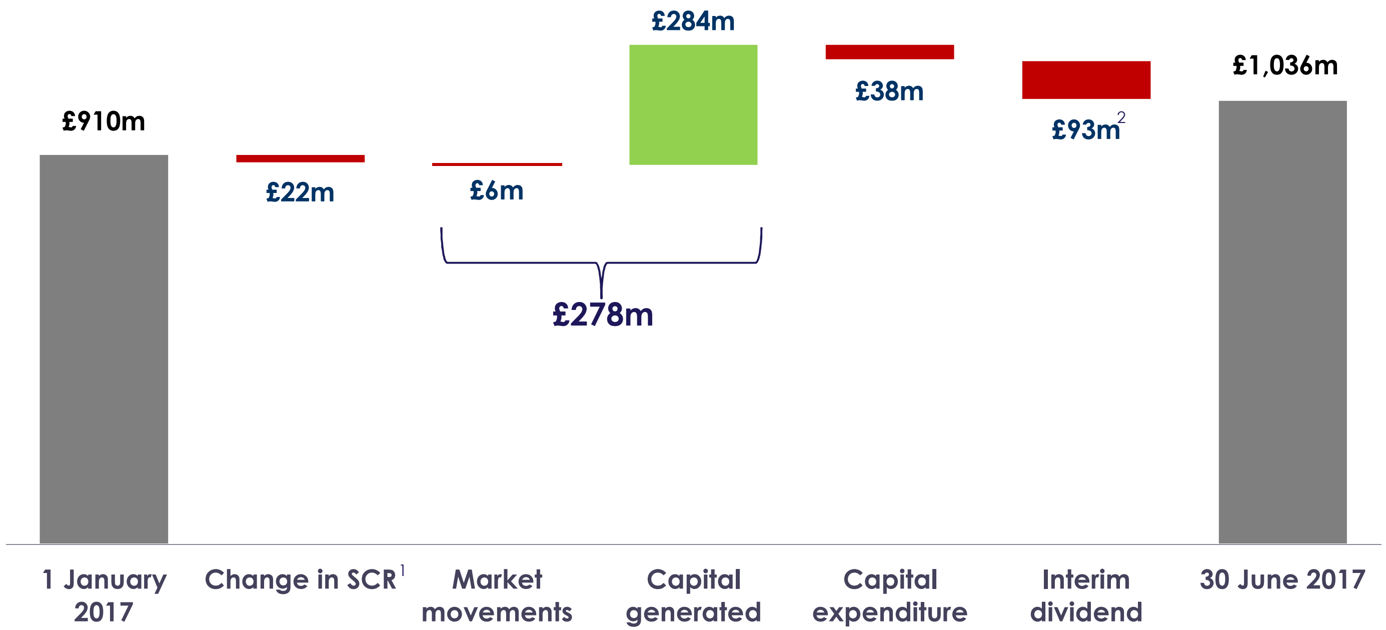
£m	31 Dec 16	30 Jun 17
Assets Under Management	**6,581**	**6,548**
	1H 2016	1H 2017
Investment income	84.4	82.8
Net realised and unrealised gains	8.3	10.2
Of which unrealised property gains	*0.5*	*9.9*
Total	**92.7**	**93.0**



- Income yield in 1H 2017 slightly ahead of guidance
- Income yield guidance for 2017 unchanged at 2.4%
- Gains in 1H 2017 relate to sale of property and bond gains in 1H 2017
- No material gains expected in 2H 2017

1. See glossary on slides 45-46 for definitions
2. June 2017 yields are annualised

Strong surplus capital generation



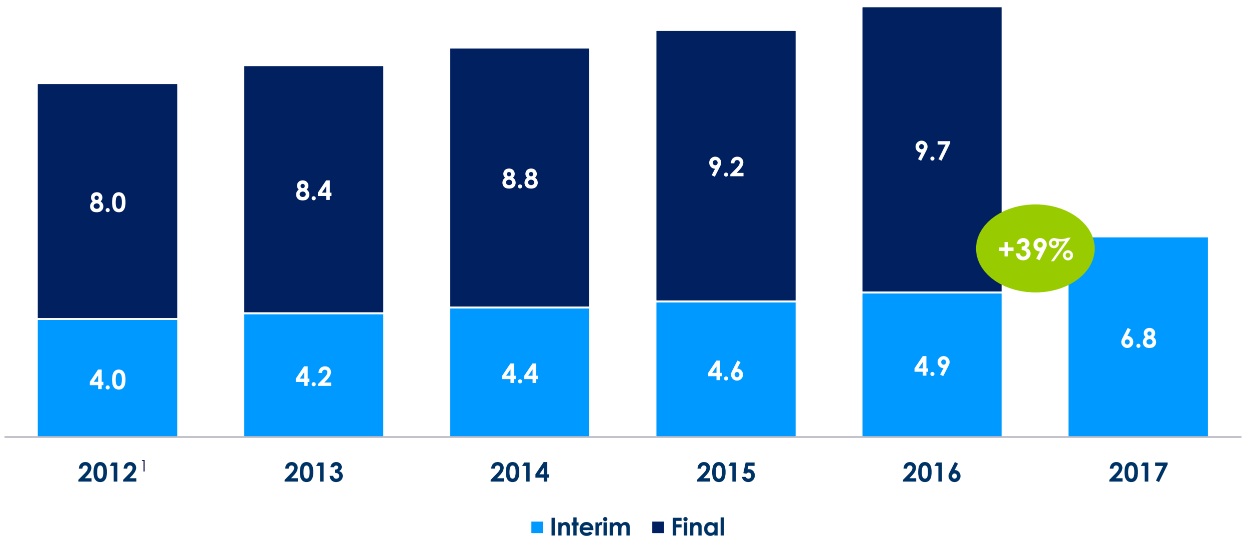
- Strong capital generation in 1H 2017 of £278m
- Small movement in the Solvency Capital Requirement (SCR) due to modelling adjustments
- Capital expenditure reflects ongoing investment in the business

1. Figures are estimated and based on partial internal model (PIM) output for 30 June 2017
2. Assumes normal level of waived dividends on employee trust shares

Regular dividend rebased

- Rebased the regular dividend; interim dividend up 39% to 6.8 pence
- Aim to grow the regular dividend by around 2-3% p.a.
- Special dividends considered once a year, alongside full year results

Regular dividend (pence)

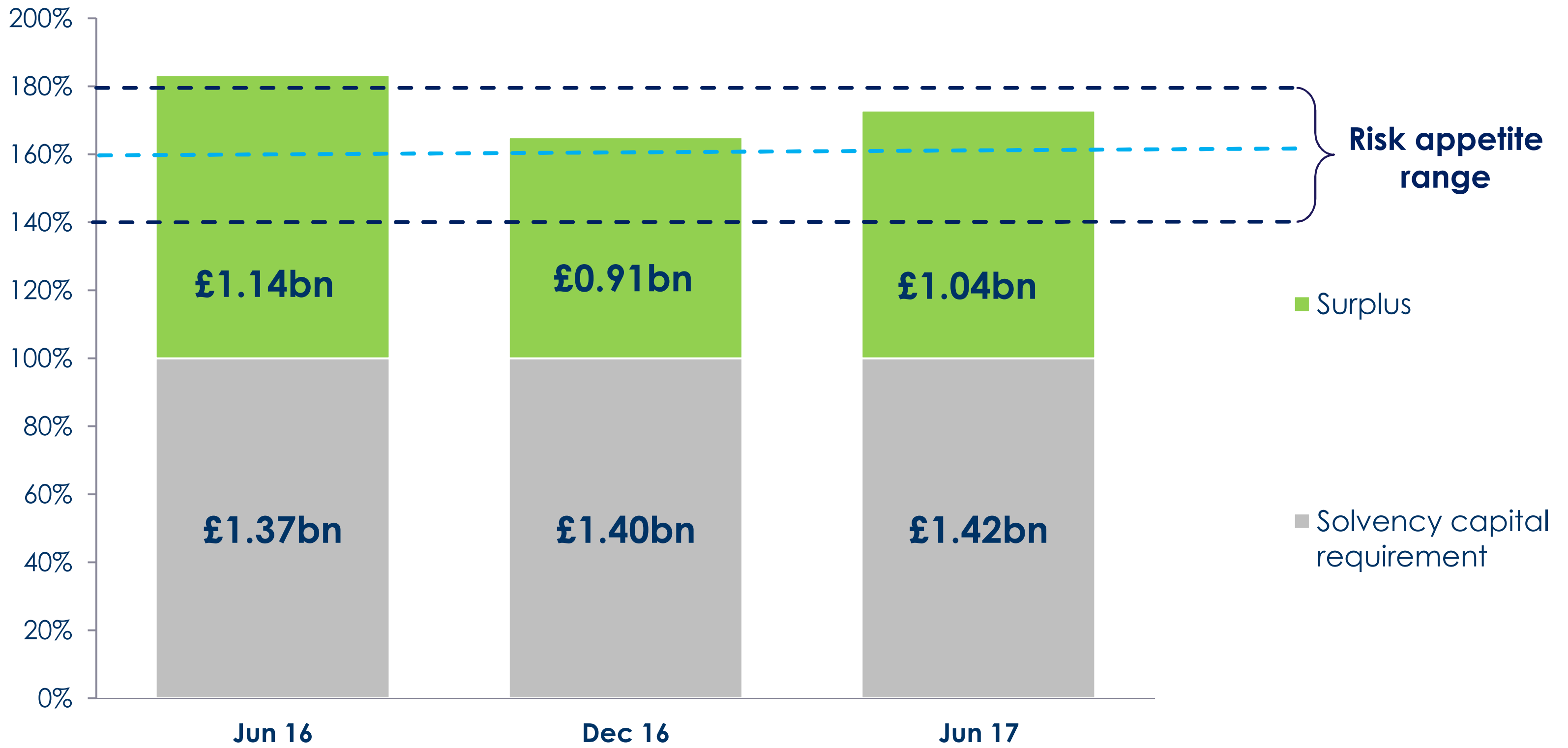


Special dividends	-	8.0p	14.0p	36.3p	10.0p

1. 2012 pro-forma interim dividend

Strong solvency; 173% coverage after rebased dividend

Solvency II capital coverage post dividends[1,2]



- **Risk appetite range: 140% to 180% of the SCR**
- **Targeting the middle of the risk appetite range[3]**
- **SCR broadly stable throughout 1H 2017**

1. December 2016 per final Solvency Financial Condition Report submitted to PRA
2. Figures are estimated and based on partial internal model (PIM) output for 30 June 2017
3. In normal circumstances, and in the absence of any material threat or opportunity

3. Strategic update

Paul Geddes

A leading UK general insurer

Leading brands[1]

direct line — #1 in all 24 brand categories

churchill — #2 in 16/24 categories

Outstanding customer experience

direct line — +13pts NPS improvement since reboot

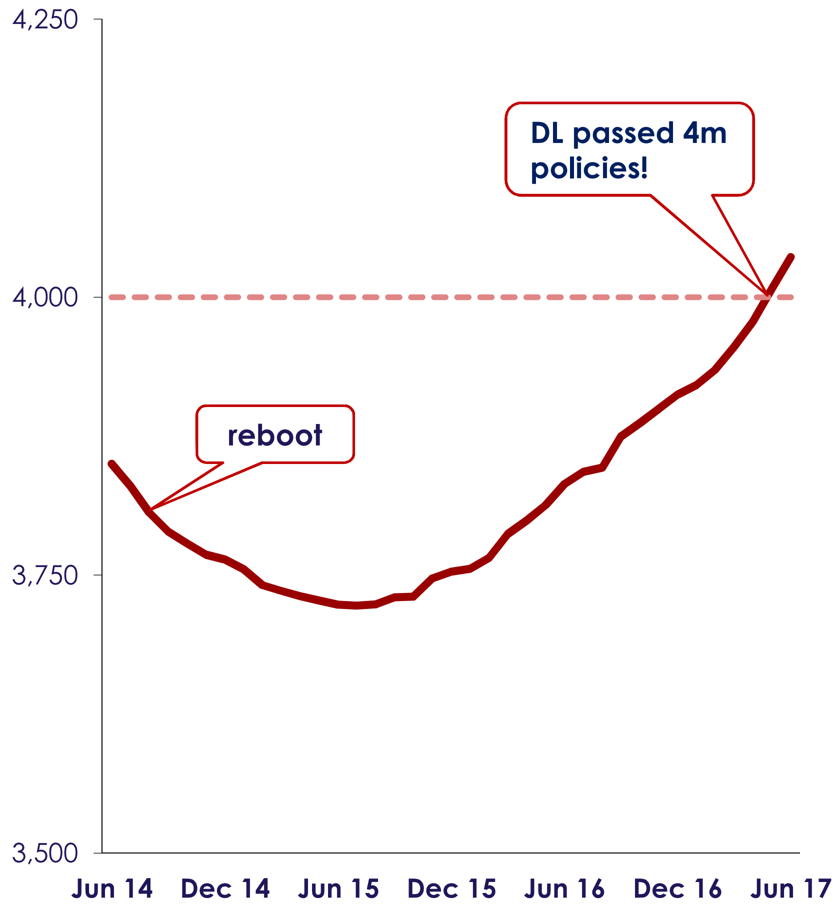
140,000hrs of front line training delivering better customer empathy

Improved competitiveness

10 new propositions and counting

Multiple pricing initiatives to increase competitiveness at good loss ratios

Direct Line In force policies (000's)[2]



1. Source: Hall and Partners Brand Tracking Data May 2017
2. Motor, Home, Rescue, Other personal lines and Direct Line for Business

The DLG proposition

1. A leading UK personal lines and SME general insurer with a track record of growing own brands policy count
2. Proven underwriting discipline, claims excellence and cost control which has delivered a consistently good Return on Tangible Equity
3. Highly cash generative business model, supported by a simple, high quality balance sheet
4. High and sustained dividends since IPO with dividend growth targeted
5. Multi-channel distribution with market-leading brands across personal and commercial products providing flexibility to adapt to different trends

Making insurance much easier and better value for our customers

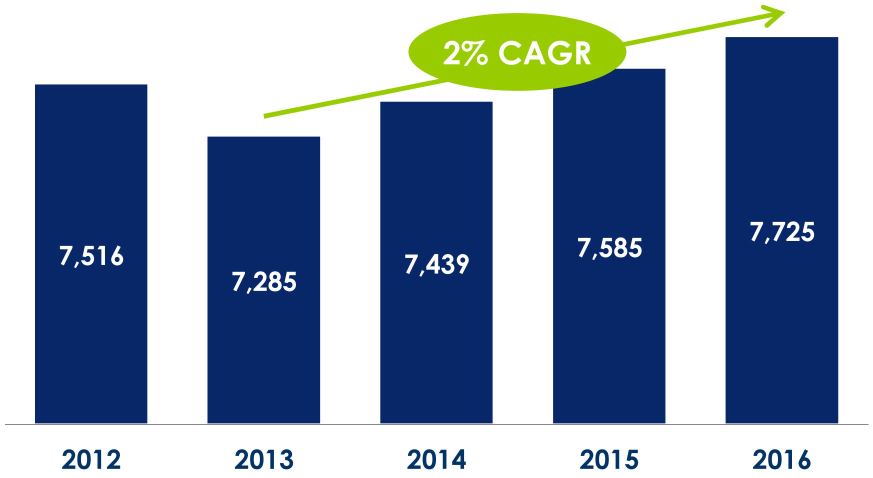
Management priorities

1. Maintain revenue growth
2. Reduce expense and commission ratios
3. Deliver underwriting and pricing excellence

Continue growing current year profits

1 Revenue growth

Own Brands in-force policies[1] (000s)



We expect to

- **Achieve low single digit growth in own brands in force policies**
- **Premium growth to largely offset loss of NBS partnership in 2018**

Ongoing momentum

- Direct Line: More new propositions
- Churchill: 'Supercharging' brand
- Green Flag: New leadership; new marketing campaign launched

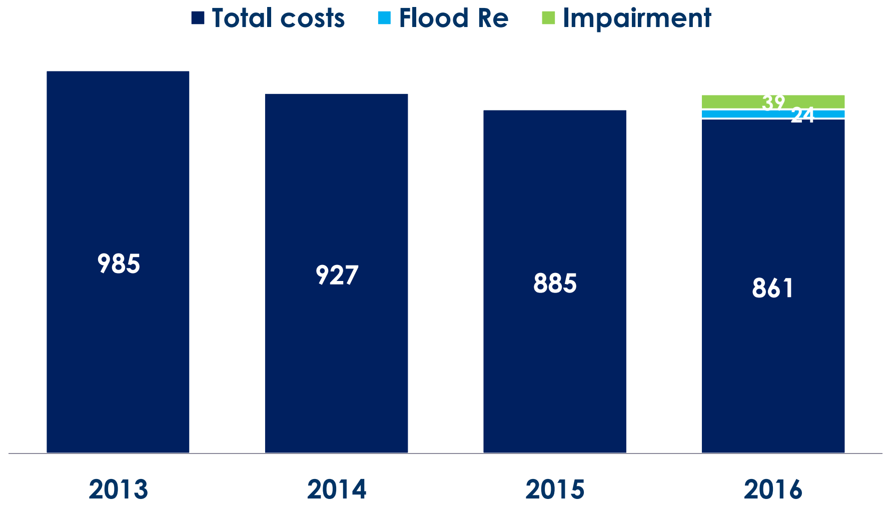
New opportunities

- Commercial: new direct products targeted at specific markets
- One view of customer supporting 'Next Best Action'
- Steady footprint expansion
- Leveraging adjacencies e.g. Roadserve

1. Excludes International

2 Reduce cost ratios

Total costs[1] (£m)



We expect to

- Continue to drive down commission and expense ratios
- Continue to invest in the long-term capabilities of the business

Ongoing momentum

- Robotic Process Automation
- Offshoring activities
- Increasing customer online interactions

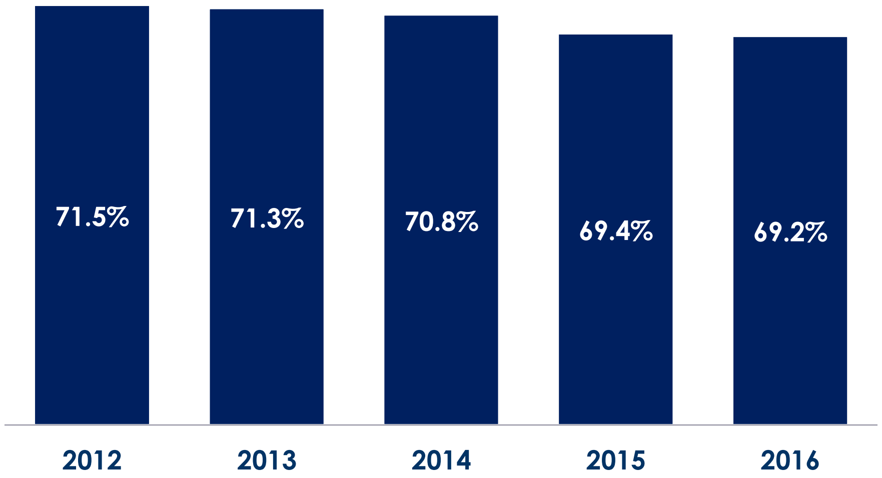
New opportunities

- New procurement structure and leadership
- Ambitious technology services plan including new operating model

1. Excludes International

3 Deliver underwriting and pricing excellence

Attritional loss ratio[1] % NEP



We expect to

- **Maintain the current year loss ratio**
- **Continue to develop capabilities to increase competitiveness and support growth**

Ongoing momentum

- Reducing fraud
- Expanding use of external data
- Expanding accident repair network

New opportunities

- Next generation pricing engine
- Alternative pricing approach including machine learning capability

1. Excludes International

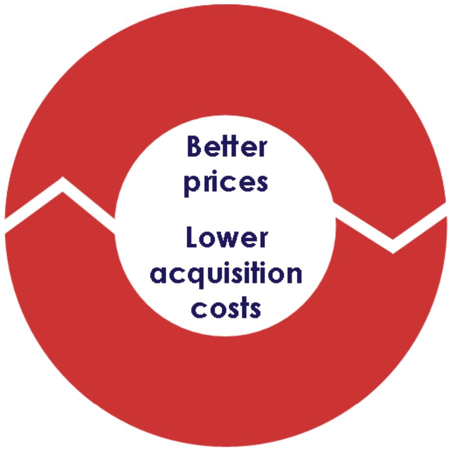
Deep dive: Direct Line for Business

Direct Line: completing the virtuous circle

Re-invest additional customer value in proposition and service

More valuable customers

- Better product holding
- Better Loss Ratio
- Higher persistency



More customer value

- Strongest brand
- Direct relationship
- Superior service and proposition

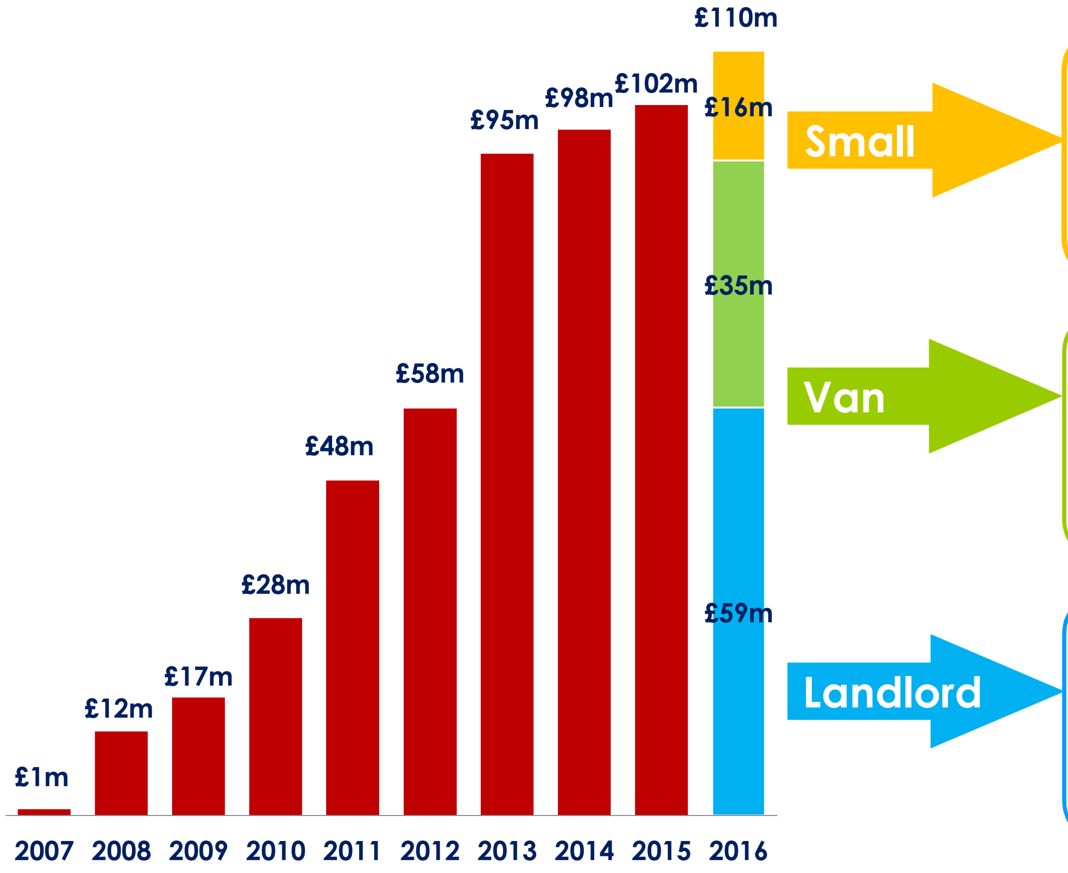
Retain existing attractive customers and attract new ones

Strategy

DL4B: Growing, profitable and an important part of the Direct Line brand

direct line for business

Strong GWP growth since launch driven by three main small and micro direct products[1]…



…and significant opportunity for future growth with the direct market estimated to grow to £3bn[2]

- Heterogeneous market
- Growing micro business market
- Varied trades, digital driven, flexible models

- Single van and mini fleet
- Natural extension to PL Motor
- Leveraging personal lines data

- Commercial and single / multi-residential market
- Award winning product
- Unique customer propositions

1. DL4B Van data first incorporated in 2013
2. Management estimate including van, landlord and small and micro businesses

Direct Line Group

DL4B: We understand what it will take to grow small direct

direct line for business

We identified the requirements needed for small & micro customers to go direct...		...and then identified the tools and capabilities needed to serve them
1 Reassurance to go direct	→	Brand strength, trade specific marketing and endorsements
2 Help selecting the cover they need	→	Interactive cover wizard
3 Ability to bespoke product for their unique business	→	Modular products
4 Much easier and better value	→	Digital solutions and sophisticated pricing

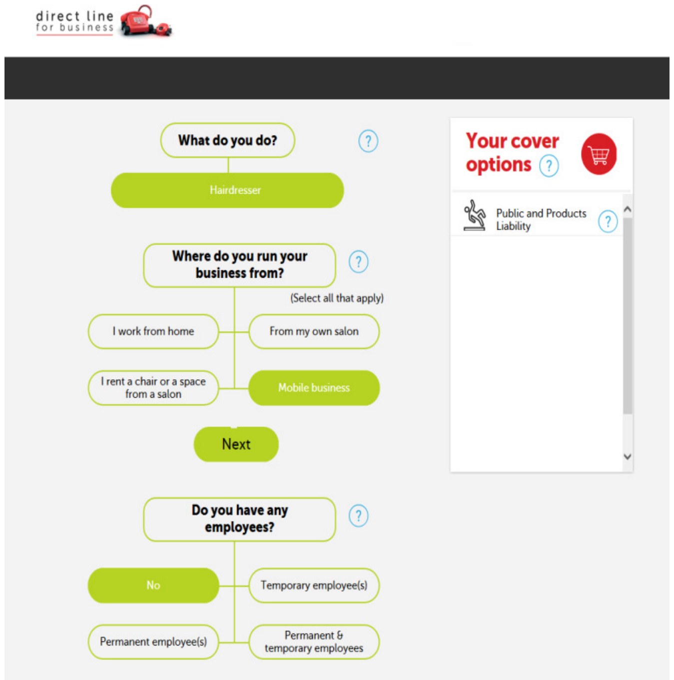
DL4B: New system launched, piloting hair and beauty

Strategy

Initial search → Interactive cover wizard → Intelligent questions → Flexible cover modules → Policy documents

Customer benefits

- ✓ An easy opening to the customer journey
- ✓ Simple questions to understand the customer needs
- ✓ Questions relevant to their business builds confidence



Customer feedback

'Its simple, I can't ask for more'

'I can sort of make a policy that fits into what my business actually is, which is great.'

'I do like that this is very targeted. These are the things I was concerned about.'

DL4B: Revolutionising the way customers buy business insurance

direct line for business

- ✓ A growing and profitable part of the Direct Line offering
- ✓ Successful track record of delivering unique propositions for Landlord and Van customers
- ✓ Unlocking further opportunity in the small & micro business market by developing bespoke insurance products
- ✓ Further new products on platform from H2 2017

Making insurance much easier and better value for our customers

4. Concluding remarks

Refreshed medium term targets

Momentum + Opportunity → Medium term targets

- ✓ Growth momentum across own brands
- ✓ Continued efficiency improvements
- ✓ Strong underwriting performance
- ✓ Strong balance sheet

Strong pipeline of initiatives

1. **Costs:** Reduce expense and commission ratios
2. **Combined ratio:** 93%-95%
3. **Rebased dividend:** grow in line with business growth
4. **Capital:** target the middle of the 140%-180% Solvency II target range[1]

Long-term target: at least 15% ROTE

1. In normal circumstances, and in the absence of any material threat or opportunity

5. Appendix

Motor

(£m unless stated)	1H 17	1H 16
In-force policies (000s)	**3,966**	**3,779**
Own brand in-force policies (000s)	3,761	3,541
Partnerships in-force policies (000s)	205	238
Gross written premium	824.4	750.3
Net earned premium	707.8	650.3
Loss ratio – current year 1	81.7%	84.6%
Loss ratio – prior years	(24.7%)	(20.6%)
Loss ratio	57.0%	64.0%
Commission ratio	2.6%	2.6%
Expense ratio	25.5%	25.7%
Combined operating ratio	**85.1%**	**92.3%**
Underwriting profit / (loss)	105.5	50.0
Of which prior year releases 2	*174.6*	*134.0*
Instalment and other income	66.2	55.8
Investment return	62.2	63.0
Operating profit	**233.9**	**168.8**

1 **Current year loss ratio improved by 2.9ppts due to margin improvement and claims handling efficiencies**

2 **Prior year releases includes £49m one-off releases relating to Ogden**

Direct Line Group

Home

(£m unless stated)	1H 17	1H 16
In-force policies (000s)	**3,304**	**3,403**
Own brand in-force policies (000s)	1,770	1,743
Partnerships in-force policies (000s)	1,534	1,660
Gross written premium	388.1	403.2
Net earned premium	397.0	411.7
Loss ratio – current year attritional	50.0%	45.0%
Major weather 1	2.3%	3.2%
Loss ratio – current year incl. weather 2	52.3%	48.2%
Loss ratio – prior years	(4.3%)	(14.8%)
Loss ratio	48.0%	33.4%
Commission ratio 4	17.0%	22.2%
Expense ratio	23.8%	25.3%
Combined operating ratio	**88.8%**	**80.9%**
Underwriting profit / (loss)	44.5	78.8
Of which prior year releases 3	*16.8*	*60.6*
Instalment and other income	11.8	11.7
Investment return	11.2	11.0
Operating profit	**67.5**	**101.5**

1 **Weather costs £9m in 1H 2017, £23m below budget and £4m lower than prior year**

2 **Current year loss ratio impacted by claims inflation on Escape of Water (EoW) peril**

3 **Lower prior year releases**

- **1H 2016 included £30m one-off weather release from 2015 storms**

4 **Lower commission ratio reflects**

- **lower prior year releases**
- **higher current year claims costs**
- **transfer of Prudential to own brands and**
- **business mix driven by growth in own brands**

Direct Line Group

Rescue and other personal lines

(£m unless stated)		
Rescue	**1H 17**	**1H 16**
In-force policies (000s)	**3,663**	**3,670**
Gross written premium	83.6	81.9
Combined operating ratio	**82.8%**	**85.2%**
Operating profit	**21.8**	**19.4**

Rescue and other personal lines[1]	**1H 17**	**1H 16**
In-force policies (000s)	**7,841**	**7,894**
Gross written premium	213.3	197.7
Net earned premium	209.0	194.8
Combined operating ratio	**93.8%**	**92.7%**
Underwriting profit	12.9	14.2
Of which prior year releases/(increases)	*(2.1)*	*7.5*
Operating profit	**22.6**	**23.4**

1. ROPL is made up of a number of products, including Rescue, Pet, Travel and Creditor

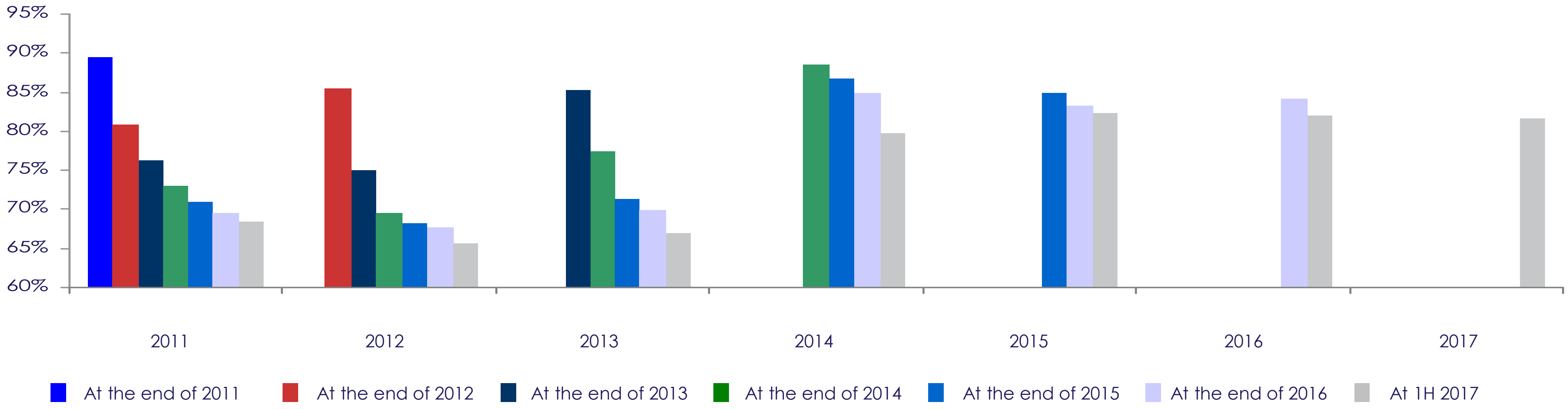
Commercial

(£m unless stated)	1H 17	1H 16
In-force policies (000s)	**700**	**660**
Direct Line for Business	452	424
NIG and other	248	236
Gross written premium	268.4	261.9
Net earned premium	233.7	223.1
Loss ratio – current year	66.0%	66.8%
Loss ratio – prior years	(11.6%)	(15.2%)
Loss ratio	54.4%	51.6%
Commission ratio	17.9%	19.4%
Expense ratio	23.8%	24.0%
Combined operating ratio	**96.1%**	**95.0%**
Underwriting profit/(loss)	*9.1*	*11.2*
Of which prior year releases 1	*27.1*	*34.0*
Instalment and other income	4.3	3.8
Investment return	16.8	14.9
Operating profit	**30.2**	**29.9**

1 **Lower prior year releases due to one-off weather release in 1H 2016 of c. £10m**

Motor reserving

Motor booked loss ratio development (net[1])



- **All years have continued to run-off positively**
- **Lower reinsurance retention from 2014 reduces the range of reserving outcomes and therefore should result in lower reserve releases over time**
- **Booked loss ratio for 1H 2017 lower than full year 2016**

1. Group view based on management best estimate, net of reinsurance, includes claims handling costs and add-ons

Investments outlook

30 Jun 17	Target allocation[1]	Current holding	Income yield	Interest rate duration (years)
Investment grade (incl private placements)	62.0%	61.3%	2.7%	2.5
High yield	6.0%	6.0%	5.0%	1.5
Credit	**68.0%**	**67.3%**	**2.9%**	**2.4**
Sovereign	8.0%	5.5%	2.1%	1.1
Total debt securities	**76.0%**	**72.8%**	**2.9%**	**2.3**
Infrastructure debt	6.0%	5.0%	2.1%	-
Commercial real estate loans[2]	3.0%	1.4%	3.2%	-
Investment property	6.0%	4.8%	5.2%	-
Cash and cash equivalents	9.0%	16.0%	0.3%	0.0
Total	**100.0%**	**100.0%**	**2.5%**	**1.7**[3]

- **ALM driven investment strategy**
- **69.3% of debt securities rated 'A' or above**
- **Diversified investment property portfolio**
- **AFS unrealised gains, net of tax of £86.5m**
- **Based on current market conditions, investment income yield expected to be 2.4% in 2017**

1. Strategic asset benchmarks for the Group
2. Commercial real estate loans commenced 27 June 2016
3. Weighted average life c. 14 years

Direct Line Group

Reinsurance

Motor excess of loss reinsurance

(£m)	2010	2011	2012	2013	2014	2015	2016	2017
Limit	Unlimited							
Deductible	10	3	3	3[1]	1[1]	1	1	1

- Cover renews on 1 January
- Retained deductible is £1m (indexed)
- Cover is unlimited in size and has an unlimited amount of cover reinstatements
- Placed 100% on a traditional, uncapitalised basis
- Placed with a panel of reinsurers who are at least 'A+' rated

Property catastrophe reinsurance

(£m)	2013/14	2014/15	2015/16	2016/17
Limit	1,300	1,400	1,350	1,250
Deductible	150	150	150	150

- Cover renews on 1 July
- Retained deductible is £150 million (but limits now expressed as % of income)
- Cover is £1.275 billion, equivalent to a 1 in 200 year modelled loss
- Cover has one full reinstatement for all programme and additional up to £600m
- Placed with a panel of reinsurers who are all at least 'A-' rated
- In latest renewal 59% placed on 3 year basis at a fixed price (reinsurance rate online)

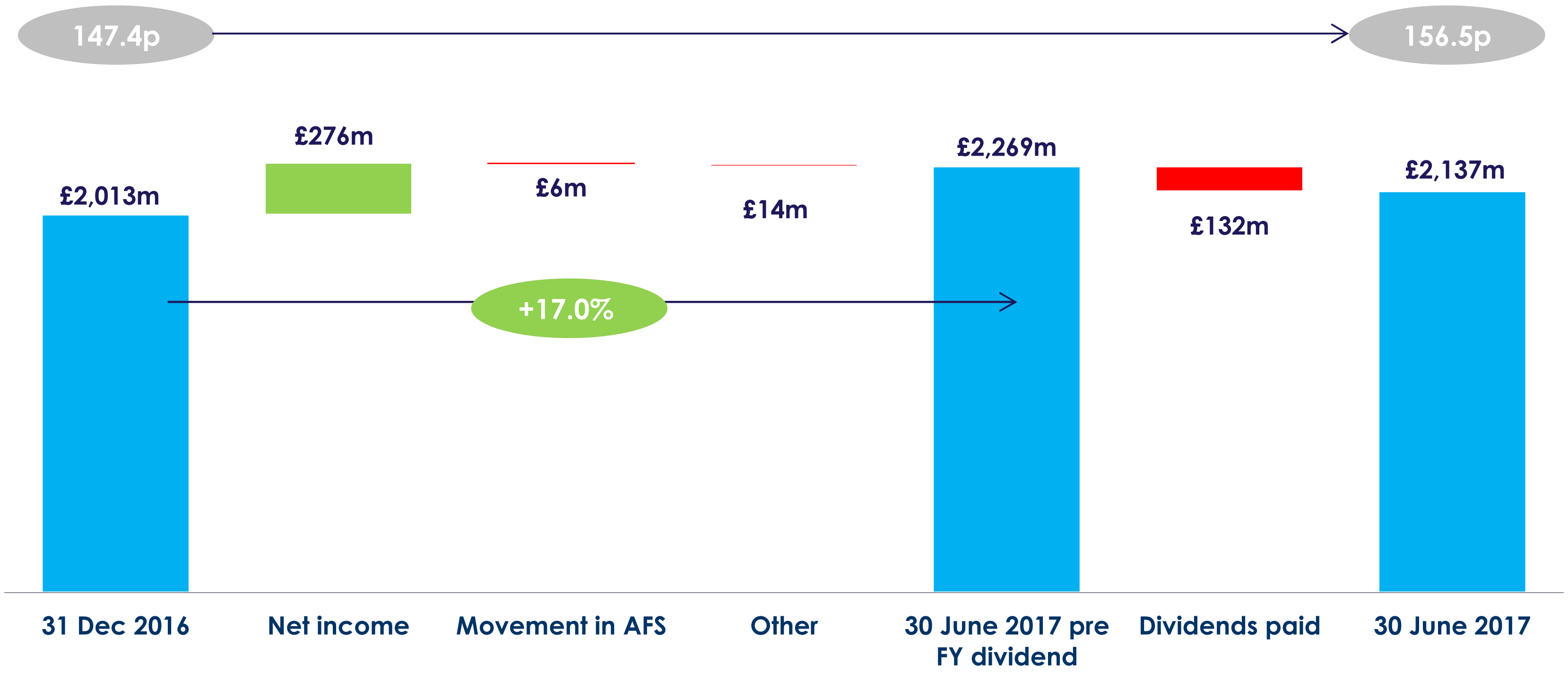
1. Partial placement on lower layers up to £5m

Direct Line Group

Book value and TNAV

Movement in tangible net asset value £m

Pence	30 Jun 17	31 Dec 16
Net asset value per share	194.4	184.7
Tangible net asset value per share	156.5	147.4



RoTE calculation

RoTE calculation

(£m)	1H 2017	1H 2016
Ongoing operating profit	354.2	323.6
Less: Finance costs	(18.3)	(18.4)
Profit before tax	335.9	305.2
Less: tax[1]	(64.7)	(61.0)
Profit after tax	**271.2**	**244.2**
Tangible equity b/f	2,012.6	2,105.2
Tangible equity c/f	2,137.1	2,127.4
Average tangible equity	2,074.8	2,116.3
Return on tangible equity annualised	**26.1%**	**23.1%**

Adjusted EPS calculation

(£m)	1H 2017	1H 2016
Ongoing operating profit	354.2	323.6
Less: Finance costs	(18.3)	(18.4)
Profit before tax	335.9	305.2
Less: tax[1]	(64.7)	(61.0)
Profit after tax	**271.2**	**244.2**
Weighted average number of ordinary shares	1,365.5	1,370.2
EPS – Adjusted basic (pence)	**19.9**	**17.8**
Weighted average number of ordinary shares (diluted)	1,378.2	1,385.7
EPS – Adjusted diluted (pence)	**19.7**	**17.6**

1. UK standard tax rate of 19.25% (2016: 20.00)

Segmental performance – 1H 2017

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total ongoing	Run-off	Total Group
GWP	824.4	388.1	213.3	268.4	**1,694.2**	-	**1,694.2**
Net earned premium	707.8	397.0	209.0	233.7	**1,547.5**	-	**1,547.5**
Net insurance claims	(403.5)	(190.7)	(135.7)	(127.1)	**(857.0)**	9.6	**(847.4)**
Commission expenses	(18.3)	(67.4)	(10.5)	(41.9)	**(138.1)**	-	**(138.1)**
Operating expenses	(180.5)	(94.4)	(49.9)	(55.6)	**(380.4)**	-	**(380.4)**
Underwriting result	**105.5**	**44.5**	**12.9**	**9.1**	**172.0**	-	**-**
Investment return	62.2	11.2	2.4	16.8	**92.6**	0.4	**93.0**
Instalment and other operating income	66.2	11.8	7.3	4.3	**89.6**	-	**89.6**
Operating profit/(loss)	**233.9**	**67.5**	**22.6**	**30.2**	**354.2**	**10.0**	**364.2**
Restructuring and other one off costs	-	-	-	-	**-**	-	**(4.5)**
Operating profit	-	-	-	-	-	-	359.7
Finance costs	-	-	-	-	**-**	-	**(18.3)**
Profit before tax	**-**	**-**	**-**	**-**	**-**	**-**	**341.4**
Loss ratio – current year	81.7%	52.3%	63.9%	66.0%	**69.4%**	-	**-**
Loss ratio – prior year	(24.7%)	(4.3%)	1.0%	(11.6%)	**(14.0%)**	-	**-**
Commission ratio	2.6%	17.0%	5.0%	17.9%	**8.9%**	-	**-**
Expense ratio	25.5%	23.8%	23.9%	23.8%	**24.6%**	-	**-**
Combined operating ratio	**84.1%**	**88.8%**	**93.8%**	**96.1%**	**88.9%**	-	**-**

Direct Line Group

Segmental performance – 1H 2016

(£m)	Motor	Home	Rescue and other personal lines	Commercial	Total ongoing	Run-off	Total Group
GWP	750.3	403.2	197.7	261.9	**1,613.1**	-	**1,613.1**
Net earned premium	650.3	411.7	194.8	223.1	**1,479.9**	-	**1,479.9**
Net insurance claims	(416.1)	(137.7)	(121.4)	(115.1)	**(790.3)**	22.0	**(768.3)**
Commission expenses	(16.7)	(91.2)	(9.6)	(43.3)	**(160.8)**	-	**(160.8)**
Operating expenses	(167.5)	(104.0)	(49.6)	(53.5)	**(374.6)**	(0.1)	**(374.7)**
Underwriting result	**50.0**	**78.8**	**14.2**	**11.2**	**154.2**	-	**-**
Investment return	63..0	11.0	2.1	14.9	**91.0**	1.7	**92.7**
Instalment and other operating income	55.8	11.7	7.1	3.8	**78.4**		
Operating profit/(loss)	**168.8**	**101.5**	**23.4**	**29.9**	**323.6**	**23.6**	**347.2**
Restructuring and other one off costs	-	-	-	-	**-**	-	**(30.3)**
Operating profit	-	-	-	-	-	-	316.9
Finance costs	-	-	-	-	**-**	-	**(18.4)**
Profit before tax	**-**	**-**	**-**	**-**	**-**	**-**	**298.5**
Loss ratio – current year	84.6%	48.2%	66.2%	66.8%	**69.4%**	-	**-**
Loss ratio – prior year	(20.6%}	(14.8%)	(3.9%)	(15.2%)	**(16.0%)**	-	**-**
Commission ratio	2.6%	22.2%	4.9%	19.4%	**10.9%**	-	**-**
Expense ratio	25.7%	25.3%	25.5%	24.0%	**25.3%**	-	**-**
Combined operating ratio	**92.3%**	**80.9%**	**92.7%**	**95.0%**	**89.6%**	-	**-**

Direct Line Group

UK regulatory themes

IDD & GDPR

- The Insurance Distribution Directive (IDD) and General Data Protection Regulation (GDPR) will be implemented in H1 2018.
- The key elements of the IDD impacting DLG are the introduction of an Insurance Product Information Document (IPID), disclosure of remuneration, product oversight and governance requirements, and continuing professional development.
- The Department for Culture, Media and Sport (DCMS) has launched a consultation requesting feedback as to how Government should use derogations listed in the GDPR

ECJ judgement on Vnuk

- At present, the Road Traffic Act (RTA) requires compulsory motor insurance to be in place for vehicles intended for or adapted for road use or in a public place – not private land – which means that it is not compliant with the EU Motor Directive, as highlighted by Vnuk.
- DfT is seeking views on whether to amend the RTA to reflect the Vnuk ruling or to wait for the EC to amend the Directive in due course (which is anticipated in 2017). DfT is also consulting on derogating certain vehicles, which removes the requirement for mandatory insurance and any claims would be covered by the Motor Insurers' Bureau (MIB), which is funded by insurers.

MoJ review of Ogden discount rate

- The Lord Chancellor announced a change in the discount rate (applied to personal injury claims which are settled with lump sum payments) from 2.5% down to negative 0.75%.
- A consultation on the methodology for setting the rate in future was completed before the election and we now await the Government response.

MoJ whiplash reforms

- The Ministry of Justice's planned measures to lower the number and cost of whiplash claims were delayed by the election. A Bill to reintroduce them was announced in the Queen's Speech and is awaiting publication.
- It is expected that the main features of the previous reforms will remain, including: a tariff of damages for whiplash claims that last up to 24 months; raising the small claims limit for RTA-related personal injury claims from £1,000 to £5,000 and to £2,000 for other personal injury claims; and banning offers to settle whiplash claims without medical evidence.

DfT Pathway to Driverless cars

- A detailed review of regulations for automated driving technologies was concluded but has been delayed by the election.
- The focus of the review was to ensure the UK is at the forefront of the testing and development of the technologies that will ultimately realise the goal of driverless vehicles.
- The new Government will introduce changes via a Bill, yet to be published.

FCA renewal disclosures, value measures and pricing

- A pilot 'scorecard' publishing measures of product value is underway. Firms' claims frequency, acceptance and average payment for a small selection of products published in January on the FCA website. A request for a second year of data is imminent. It is possible the pilot will be extended for a further year, scrapped altogether, or a consultation will be published to introduce a permanent return.
- The requirement to disclose last year's premium on renewal documents as well as statements on shopping around for cover was implemented in April 2017.
- In the FCA's annual Business Plan, a review of pricing practices in General Insurance was launched.

Glossary of terms

Term	Definition
Adjusted diluted earnings per share	Adjusted diluted earnings per share is calculated by dividing the adjusted profit after tax of Ongoing operations by the weighted average number of Ordinary Shares during the period adjusted for dilutive potential Ordinary Shares.
Adjusted profit after tax	Profit after tax is adjusted to exclude the Run-off segment and restructuring costs, and is stated after charging tax using the UK standard tax rate of 19.25%; (2016: 20.00%).
Capital coverage ratio	The ratio of Solvency II own funds to the solvency capital requirement.
Combined operating ratio ("COR")	The sum of the loss, commission and expense ratios. The ratio measures the amount of claims costs, commission and expenses, compared to net earned premium generated. A ratio of less than 100% indicates profitable underwriting.
Commission ratio	The ratio of commission expense divided by net earned premium.
Current-year attritional loss ratio	The loss ratio for the current accident year, excluding the movement of claims reserves relating to previous accident years, and claims relating to major weather events in the Home division.
Earnings per share	The amount of the Group's profit allocated to each Ordinary Share of the Company.
Expense ratio	The ratio of operating expenses divided by net earned premium.
Investment income yield	The income earned from the investment portfolio, recognised through the income statement during the period, and divided by the average AUM. This excludes unrealised and realised gains and losses, impairments, and fair-value adjustments. The average AUM derives from the period's opening and closing balances for the total Group.
Investment return	The income earned from the investment portfolio, including unrealised and realised gains and losses, impairments and fair value adjustments.

Glossary of terms

Term	Definition
Investment return yield	The return earned from the investment portfolio, recognised through the income statement during the period divided by the average AUM. This includes unrealised and realised gains and losses, impairments, and fair-value adjustments. The average AUM derives from the period's opening and closing balances.
Loss ratio	Net insurance claims divided by net earned premium.
Ongoing operations	Ongoing operations comprise Direct Line Group's Ongoing divisions: Motor, Home, Rescue and other personal lines, and Commercial. It excludes discontinued operations, the Run-off segment, and restructuring costs.
Operating profit	The pre-tax profit that the Group's activities generate, including insurance and investments activity, but excluding finance costs.
Return on tangible equity ("RoTE")	Return on tangible equity is adjusted profit after tax from Ongoing operations, divided by the Group's average shareholders' equity, less goodwill and other intangible assets. Profit after tax is adjusted to exclude the Run-off segment and restructuring costs. It is stated after charging tax using the UK standard tax rate of 19.25% (2016: 20.0%).
Solvency II	The capital adequacy regime for the European insurance industry, which became effective on 1 January 2016. It establishes capital requirements and risk management standards. It comprises three pillars: Pillar I, which sets out capital requirements for an insurer; Pillar II, which focuses on systems of governance; and Pillar III, which deals with disclosure requirements.
Total costs	Total costs comprise operating expenses and claims handling expenses for Ongoing operations.
Underwriting result (profit or loss)	The profit or loss from operational activities, excluding investment return and other operating income. It is calculated as net earned premium less net insurance claims and total expenses.

Direct Line Group

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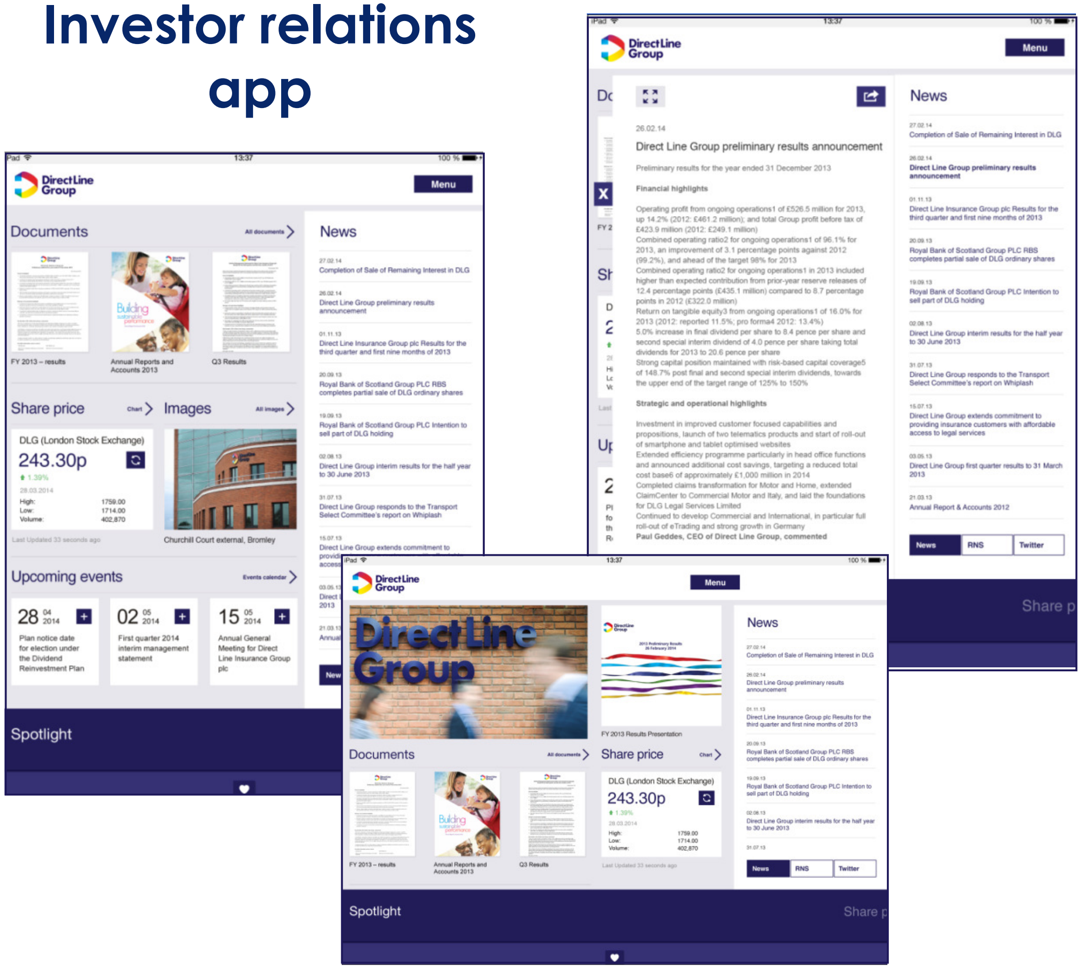

General disclaimer

Forward-looking statements

Certain information contained in this document, including any information as to the Group's strategy, plans or future financial or operating performance, constitutes "forward-looking statements". These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "aims", "anticipates", "aspire", "believes", "continue", "could", "estimates", "expects", "guidance", "intends", "may", "mission", "outlook", "plans", "predicts", "projects", "seeks", "should", "strategy", "targets" or "will" or, in each case, their negative or other variations or comparable terminology, or by discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Directors concerning, among other things: the Group's results of operations, financial condition, prospects, growth, strategies and the industry in which the Group operates. Examples of forward-looking statements include financial targets which are contained in this document specifically with respect to return on tangible equity, risk-based capital coverage ratio, the Group's combined operating ratio, prior-year reserve releases, cost reduction, investment income yield, net realised and unrealised gains, results from the run-off segment, restructuring and other one-off costs, and risk appetite range. By their nature, all forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future or are beyond the Group's control.

Forward-looking statements are not guarantees of future performance. The Group's actual results of operations, financial condition and the development of the business sector in which the Group operates may differ materially from those suggested by the forward-looking statements contained in this document, for example directly or indirectly as a result of, but not limited to, UK domestic and global economic business conditions, the result of the referendum on the UK's withdrawal from the European Union, market-related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities (including changes related to capital and solvency requirements or the Ogden discount rate), the impact of competition, currency changes, inflation and deflation, the timing impact and other uncertainties of future acquisitions, disposals, joint ventures or combinations within relevant industries, as well as the impact of tax and other legislation and other regulation in the jurisdictions in which the Group and its affiliates operate. In addition, even if the Group's actual results of operations, financial condition and the development of the business sector in which the Group operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods.

The forward-looking statements contained in this document reflect knowledge and information available as of the date of preparation of this document. The Group and the Directors expressly disclaim any obligations or undertaking to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, unless required to do so by applicable law or regulation. Nothing in this document should be construed as a profit forecast.

Inside Information

Prior to publication, this document combined inside information for the purposes of Article 7 of the European Union Regulation 596/2014.